

**REPORT OF THE AUDIT OF THE
BATH COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
November 7, 2007 Through July 8, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
BATH COUNTY
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period
November 7, 2007 through July 8, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Bath County Sheriff for the period November 7, 2007 through July 8, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,837,846 for the districts for 2007 taxes, retaining commissions of \$110,822 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,725,220 to the districts for 2007 taxes. Taxes of \$1,722 are due to the districts from the Sheriff and refunds of \$768 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Maintain A Receipts Ledger For All Taxes and Fees Collected

Deposits:

The Sheriff's deposits as of January 9, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$795,639

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carolyn Belcher, Bath County Judge/Executive
Honorable John "Tuffy" Snedegar, Bath County Sheriff
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the Bath County Sheriff's Settlement - 2007 Taxes for the period November 7, 2007 through July 8, 2008. This tax settlement is the responsibility of the Bath County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Bath County Sheriff's taxes charged, credited, and paid for the period November 7, 2007 through July 8, 2008, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carolyn Belcher, Bath County Judge/Executive
Honorable John "Tuffy" Snedegar, Bath County Sheriff
Members of the Bath County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Maintain A Receipts Ledger For All Taxes and Fees Collected

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

December 4, 2008

BATH COUNTY
JOHN "TUFFY" SNEDEGAR, SHERIFF
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period November 7, 2007 through July 8, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 274,345	\$ 831,411	\$ 919,710	\$ 323,989
Tangible Personal Property	11,524	37,629	38,632	44,677
Franchise Taxes	50,818	187,000	170,573	
Additional Billings	682	1,808	2,288	805
Bank Franchises	34,773			
Penalties	3,540	10,698	11,866	4,287
Adjusted to Sheriff's Receipt	(1,142)	(3,221)	(3,791)	(478)
Gross Chargeable to Sheriff	<u>374,540</u>	<u>1,065,325</u>	<u>1,139,278</u>	<u>373,280</u>
<u>Credits</u>				
Exonerations	2,828	8,740	9,480	4,060
Discounts	4,540	12,431	13,703	5,398
Delinquents:				
Real Estate	6,057	18,718	20,304	7,153
Tangible Personal Property	<u>126</u>	<u>452</u>	<u>421</u>	<u>166</u>
Total Credits	<u>13,551</u>	<u>40,341</u>	<u>43,908</u>	<u>16,777</u>
Taxes Collected	360,989	1,024,984	1,095,370	356,503
Less: Commissions *	<u>15,630</u>	<u>35,938</u>	<u>43,815</u>	<u>15,439</u>
Taxes Due	345,359	989,046	1,051,555	341,064
Taxes Paid	344,994	989,088	1,050,320	340,818
Refunds (Current and Prior Year)	<u>101</u>	<u>289</u>	<u>338</u>	<u>122</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Audit	<u>\$ 264</u>	<u>\$ (331)</u>	<u>\$ 897</u>	<u>\$ 124</u>

* and ** See next page.

The accompanying notes are an integral part of this financial statement.

BATH COUNTY
 JOHN "TUFFY" SNEDEGAR, SHERIFF
 SHERIFF'S SETTLEMENT - 2007 TAXES
 For The Period November 7, 2007 through July 8, 2008
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,319,874
4% on	\$	1,288,243
1% on	\$	219,729

** Special Taxing Districts:

Library District	\$	170
Health District		126
Extension District		101
Soil Conservation District		40
Fire District		<u>(768)</u>

Due Districts or		
(Refund Due Sheriff)	\$	<u>(331)</u>

BATH COUNTY
NOTES TO FINANCIAL STATEMENT

July 8, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Bath County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

BATH COUNTY
 NOTES TO FINANCIAL STATEMENT
 July 8, 2008
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Bath County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On January 9, 2008 the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$795,639

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 7, 2007 through July 8, 2008.

Note 4. Interest Income

The Bath County Sheriff earned \$1,101 as interest income on 2007 taxes. As of December 4, 2008, the Sheriff owed \$201 in interest to the school district and \$676 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Bath County Sheriff collected \$26,578 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of December 4, 2008, the Sheriff owed \$17,159 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Bath County Sheriff collected \$955 of advertising costs and \$955 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of December 4, 2008, the Sheriff owed \$955 in advertising costs to the county and \$955 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amount is as follows:

2007 - \$2,118

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned, and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carolyn Belcher, Bath County Judge/Executive
Honorable John "Tuffy" Snedegar, Bath County Sheriff
Members of the Bath County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Bath County Sheriff's Settlement - 2007 Taxes for the period November 7, 2007 through July 8, 2008, and have issued our report thereon dated December 4, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bath County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Bath County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Bath County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bath County Sheriff's Settlement - 2007 Taxes for the period November 7, 2007 through July 8, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff Should Maintain A Receipts Ledger For All Taxes and Fees Collected

The Bath County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Bath County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 4, 2008

COMMENTS AND RECOMMENDATIONS

BATH COUNTY
JOHN "TUFFY" SNEDEGAR, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period November 7, 2007 through July 8, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks of adequate segregation of duties over receipts and disbursements. The bookkeeper collects and deposits tax receipts, records all transactions, prepares monthly reports, and issues checks to taxing districts. Adequate segregation of duties dictates the same employee should not perform all of these functions.

Segregation of duties over the accounting functions noted above, or implementation of compensating controls when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

We recommend the Sheriff segregate the duties of the bookkeeper or perform the following compensating controls to help offset this weakness.

- Recount and deposit cash.
- Agree daily tax collection totals to the receipts and deposit slip.
- Maintain and agree monthly tax reports to receipts and disbursements ledgers.
- Examine all checks prepared by another employee.

Sheriff's Response: OK.

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

On January 9, 2008, \$795,639 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: OK.

BATH COUNTY
JOHN "TUFFY" SNEDEGAR, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period November 7, 2007 through July 8, 2008
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Maintain A Receipts Ledger For All Taxes And Fees Collected

The Sheriff did not maintain a receipts ledger for all taxes and fees collected. Tax collections, 10% add-on fees, advertising fees, and advertising costs should be accounted for separately. This would allow the Sheriff to determine amounts to be distributed on a monthly basis. KRS 134.160(2) requires the Sheriff to maintain "an accurate account of all moneys received." We recommend the Sheriff maintain a detailed receipts ledger and agree those amounts to monthly reports so that appropriate amounts can be distributed.

Sheriff's Response: OK.

